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Economy in Transition

Edward H. Sibbald

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ECONOMY in transition



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The Georgia Southeastern Regional Outlook views 2010 as a period of transition — from the 'free fall' conditions of late 2008 and early 2009 to a gradual sustainable period of recovery.

With the holidays behind us, it is now the season to forecast the future — the time when economic forecasts abound. The Bureau of Business Research and Economic Development in the College of Business Administration at Georgia Southern University has completed its 2010-2011 Georgia Southeastern Regional Outlook, the highlights of which are summarized in this article. Although the outlooks differ to some degree from other forecasts in terms of specific numbers, there appears to be a broad consensus in key areas such as the pace of recovery, consumer and business spending and the lag in job growth. Of course, economic forecasting is as much art as it is science. No crystal balls

exist to clearly predict the future when so much is dependent upon assumptions regarding consumers' willingness to spend, businesses to invest and local real estate conditions. Add in the variables of external factors such as volatility in commodity prices — oil prices, for example — the possibility of geopolitical shocks, Mother Nature and partisan politics bending sound economic theory on its ear and you are left with a witches' brew of haze clouding the future. The BBRED economic outlook views 2010 as a period of transition from the "free fall" conditions of late 2008 and early 2009 to a gradual sustainable period of recovery. Technically, the recession ended in mid-



Ed Sibbald

year 2009, but the fragile recovery will not have a meaningful impact for "Main Street" America (small businesses and consumers) in the first half of 2010. Two million new jobs will not suddenly appear, nor will 2010 consumer spending and economic growth rates rebound to 2003-2005 levels. Regrettably, more banks will fail, more foreclosures will occur and more time will be needed before home prices begin to rise and vacant offices and storefronts become occupied. Nevertheless, the economy appears to have "turned the corner" and key fundamentals are falling into place to support sustainable, if somewhat erratic, growth during the next two to three years.



NATIONAL OUTLOOK

The national economy will grow slowly and gather increasing momentum later this year and into 2011. Real GDP growth is projected at 2.3 percent in 2010 and 2.8 percent in 2011. Stimulus spending will support the recovering economy in 2010. Modest increases are expected in disposable income, and consumer spending should increase by approximately 1.5 percent. Business spending will increase for equipment and software, as well as replenishing inventories. Nevertheless, the growth rates will fall short of the 3.0 percent long-term average growth rate in the U.S. economy. Unfortunately, the gradual growth will not have a significant impact on unemployment levels. Unemployment rates will increase and peak at approximately 10.6 percent by mid-year and average 10.1 percent for the full year. The monthly unemployment rate in December 2010 may fall below 10.0 percent — a slight improvement over the expected December 2009 rate of 10.2 percent to 10.4 percent. Looking out further, unemployment

2010 PROJECTED GROWTH RATES BY PERCENT			
	National	Georgia	Coastal region
GDP growth rate	2.0 to 2.5	0.5 to 1.0	1.0 to 1.5
Personal income	1.5 to 2.0	1.0 to 1.5	1.5 to 2.5
Employment	-1.5	-1.5	0.5 to 1.0
Unemployment rate	9.8 to 10.0	9.5 to 10.0	8.3 to 8.6

Source: Bureau of Business Research and Economic Development
Georgia Southern University

rates will slowly decline with an average rate of 9.8 percent for 2011 and 9.0 percent in December 2011. The ghosts of a "jobless recovery" are reminiscent of the unemployment trends after the mild recession in 2001. Short-term interest rates are projected to remain close to current levels through midyear, and modest increases in rates (.5 percent to .75 percent) will most likely occur in the latter part of the year, if at all. Core inflation rates will range between 1.5 percent to 2.5 percent and will be held in check by weak consumer demand, the absence of wage pressures and below-average plant

capacity utilization rates. In most areas of the nation, including Georgia, residential real estate prices are stabilizing and excess supply inventories will begin to wind down. An increase in housing sales should be evident in the spring buying season, aided in part by the extension and expansion of the homeowner's tax credit program. Housing starts are expected to increase substantially from their record lows in 2008-2009 and will have positive effects on housing-related industries in manufacturing, retail consumer durables and real estate sectors.

STATE OUTLOOK

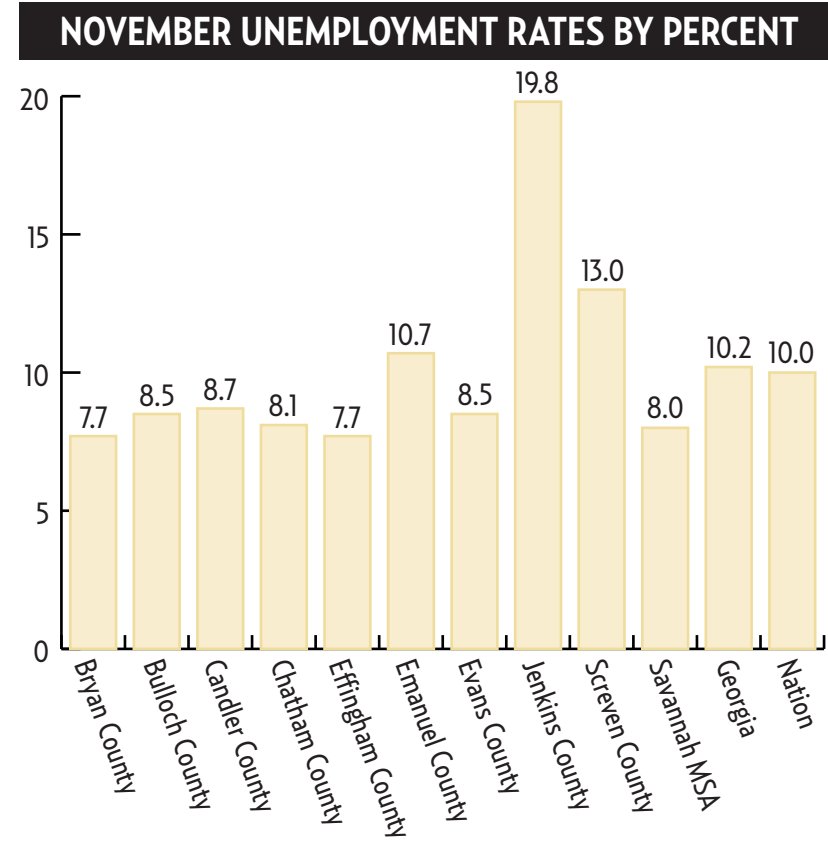
Georgia's state and regional economies will recover at a slower pace than the national outlook in 2010 as noted in the table above. Georgia's economy has an above-average reliance on real estate, related materials manufacturing

and financial services. The recession took its toll on large markets within the state — especially the extended Atlanta regional area — and require more time to heal. Banks remain under financial stress and are being pressured by state and federal regulators to reduce concentrations in residential and commercial real

estate lending, which typically account for 60 percent to 80 percent of their loan portfolios. Companies relocating to Georgia and real estate prices stabilizing around the nation (allowing sellers to sell their homes and move south) will have a positive impact for population growth and job creation in 2011.

REGIONAL OUTLOOK

The Coastal Region comprises 10 counties: Chatham, Bryan, Effingham, Long, Liberty, McIntosh, Bulloch, Screven, Camden and Glynn. As noted in the table above, economic growth is forecast at a higher rate than the state overall but still slightly less than national growth. This region has a diversified economic base that offsets some of the economic pain in real estate, manufacturing and financial services experienced elsewhere in the state. The Savannah Metropolitan Statistical Area — Chatham, Bryan and Effingham counties — has an attractive blend of health care, military, education, tourism, logistics and transportation (the port) and manufacturing. Similarly, the second-largest county, Bulloch, has a solid, stable base in education, health care, retail distribution and manufacturing. Unemployment rates in the Coastal Georgia region are lower than Georgia and national averages. However, there is a significant range of variations between the Savannah MSA and selected neighboring counties as noted in the bar chart below. Based on BBRED's economic modeling, this region will outperform other regions in Georgia during the next two to three years and will reach pre-recession levels of economic output, real personal income and dispos-



Source: Georgia Department of Labor

able income sooner. The attractive combination of low construction costs, an educated work force, a diversified economy and the historical ambience of Savannah will permit the region to fully participate in the recovery phase of the business cycle and maintain lower-than-average unemployment rates.

Edward H. Sibbald is the BB&T executive in residence in banking, College of Business Administration, Georgia Southern University and director of the college's Center for Excellence in Financial Services. Contact him at ehsibbald@georgiasouthern.edu.